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Message Text

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51
ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DODE-00 PA-03 USIA-15 PRS-01 AGR-20 PM-07 L-03 H-03

INT-08 DOTE-00 COA-02 RSR-01 /192 W
---------- 118738
R 312034Z AUG 73
FM AMEMBASSY MONTEVIDEO
TO SECSTATE WASHDC 5166
INFO AMEMBASSY BRASILIA
AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A
TAGS: ECON, UY
SUBJECT: GOU ECONOMIC THINK SESSION

REF : MONTEVIDEO 2605

1. SUMMARY: BEGIN UNCLASSIFIED THE GOU ENDED AUGUST 30 THE FIVE-DAY THINK SESSION ON THE ECONOMIC PROBLEMS OF URUGUAY. THE MEETING WAS ATTENDED BY THE PRESIDENT, THE COUNCIL OF MINISTERS AND ARMED FORCES CHIEFS. THE SESSION APPARENTLY PRODUCED A WIDE NUMBER OF CONCRETE DECISIONS, RANGING FROM GRADUAL DECONTROL OF PRICES, TO MONETARY CORRECTION, TO STIMULATION OF PRIVATE, INCLUDING FOREIGN, INVESTMENT.

2. THE GOU RETREAT FOR THE PURPOSE OF ESTABLISHING A COORDINATED ACTION PLAN FOR ECONOMIC POLICY (SEE MONTEVIDEO 2605) ENDED ON AUGUST 30. THE MEETING WAS EXTENDED MIDWAY THROUGH THE SESSION TO FIVE DAYS FROM THE PREVIOUSLY-SCHEDULED FOUR. THE GOVERNMENT ALSO AGREED TO UNDERTAKE ANOTHER THINK SESSION
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BEFORE THE END OF SEPTEMBER. THE MAIN AGREEMENTS REACHED AT

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THE MEETING, ACCORDING TO OFFICIAL COMMUNIQUES, ARE GIVEN BELOW:

A. PRICE CONTROLS: THE GOVERNMENT AGREED TO GRADUALLY REDUCE THE BREADTH OF CONTROL OVER PRICES EXERCISED BY THE WAGE AND PRICE BOARD (COPRIN). COMMODITIES CURRENTLY UNDER PRICE CONTROL WILL BE DIVIDED INTO THREE GROUPS: ESSENTIAL ITEMS, FOR WHICH ADMINISTRATIVE CONTROL WILL CONTINUE TO BE EXERCISED; LESS ESSENTIAL GOODS, FOR WHICH PRICE INCREASES WILL BE AUTOMATICALLY APPROVED UPON RECEIPT OF PROOF OF INCREASED COSTS; NON-ESSENTIAL GOODS, FOR WHICH PRICE CONTROLS WILL BE ELIMINATED COMPLETELY.

B. MONETARY CORRECTION: THE GOVERNMENT AGREED TO WRITE LEGISLATION TO PROVIDE FOR ADJUSTMENT OF SAVINGS INSTRUMENTS FOR INFLATION, FOR THE PURPOSE OF PROMOTING SAVINGS AND NATIONALIZING THE FINANCIAL STRUCTURE OF THE ECONOMY.

C. INDUSTRIAL PROMOTION: THE GOVERNMENT APPROVED THE BASIC STRUCTURE OF AN INDUSTRIAL PROMOTION LAW WHICH WOULD GIVE FISCAL INCENTIVES TO FIRMS IN PRIORITY SECTORS.

D. FOREIGN INVESTMENT: THE GOVERNMENT AGREED TO PROMOTE FOREIGN INVESTMENT IN PRIORITY AREAS AND PROMISED TO ESTABLISH A SYSTEM THAT WOULD GUARANTEE THE FOREIGN INVESTOR THAT PROFIST, INTEREST PAYMENTS AND AMORTIZATION OF FOREIGN LOANS COULD BE REMITTED ABORAD. AT THE SAME TIME, THE GOVERNMENT ESTABLISHED A NUMBER OF INDUSTRIES (PETROLEUM, MINERALS EXPLOITATION, ELECTRICITY, RAILROADS, MEAT PACKING, AGRICULTURE, COMMUNICATIONS AND MASS MEDIA) WHERE FOREIGN INVESTMENT WOULD BE PERMITTED ONLY AFTER EXPLICIT GOVERNMENT APPROVAL. AN ADDITIONAL TAX ON PROFITS ABOVE 15 PERCENT OF INVESTED CAPITAL WAS ALSO APPROVED.

E. PUBLIC WORKS: THE GOVERNMENT APPROVED A SHORT-TERM PUBLIC WROKS PROGRAM, PRINCIAPPLY FOR RAODS AND BRIDGES, TO STIMULATE EMPLOYMENT. THE SIXTEEN PROJECTS, WITH A TOTAL COST OF 17 BILLION PESOS, ARE TO BE UNDERTAKEN IMMEDIATELY AND FINISHED WITHIN EIGHTEEN MONTHS.

F. SPECIFIC INDUSTRIES: SPECIFIC MEASURES WERE ESTABLISHED
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TO PROMOTE SOME INDIVIDUAL INDUSTRIES--MOST IMPORTANTLY, TOURISM, LEATHER PRODUCTS, FISHING, AND GRANITE PRODUCTION. IN EACH CASE, THE INDUSTRY IS TO RECEIVE SPECIAL TREATMENT WITH REGARD TO THE IMPORTATION OF NEEDED CAPITAL GOODS AND RAW MATERIALS, SPECIAL FINANCING, AND STIMULUS, THROUGH BOTH DIRECT INCENTIVES AND SIMPLIFICATION OF ADMINISTRATIVE PROCEDURES, TO EXPORTATION. IN THE CASE OF FISHING, A SPECIAL EFFORT IS TO BE MADE TO ATTRACT FOREIGN INVESTMENT.

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G. AGRICULTURE: THE GOVERNMENT IS TO STIMULATE A RAPID INCREASE IN THE PRODUCTIVITY OF THE AGRICULTURAL SECTOR. THE ENFORCEMENT OF THE AVERAGE LAND PRODUCTIVITY TAX (IMPROME) IS TO BE ONE OF THE MAIN INSTRUMENTS IN THIS EFFORT, BUT THE GOVERNMENT WILL ALSO ENSURE ACCESS TO SUFFICIENT LAND TO THOSE WHO ARE CAPABLE OF USING IT EFFICIENTLY. NO MECHANISM FOR THIS LAND AVAIL-ABILITY WAS ANNOUNCED. END UNCLASSIFIED.

2. COMMENT: BEGIN LIMITED OFFICIAL USE THE MEETING HAS PRO-DUCED A NUMBER OF IMPORTANT AND FAR-RANGING POLICY DECISIONS. THE DECISIONS PRODUCED APPEAR TO BE A CONSISTENT SET OF POLICIES AIMED AT ENDING THE LONG ECONOMIC STAGNATION OF THE COUNTRY; THOUGH MOST OF THE POLICY DECISIONS TAKEN CAN ONLY BE EXPECTED TO PRODUCE MAJOR RESULTS OVER THE MEDIUM TERM, THE PUBLIC-WORKS PROGRAM IS CLEARLY AN EFFORT TO OBTAIN SOME IMMEDIATE IMPACT ON THE ECONOMY AND ON PUBLIC OPINION. IT REMAINS TO BE SEEN HOW QUICKLY THE REMAINDER OF THE PROGRAM CAN BE PUT INTO EFFECT. IN SOME CASES, SUCH AS MONETARY CORRECTION AND INDUSTRIAL PRO-MOTION, THE BASIC TECHNICAL WORK HAS LARGELY BEEN DONE ALREADY, SO THAT IMPLEMENTATION COULD COME RATHER QUICKLY. IN OTHERS, IT IS SIMPLY UNCLEAR HOW RAPIDLY THE GOVERNMENT WILL BE ABLE TO MOVE.

THE MEETING HAS CLEARLY PRODUCED A RAISING OF EXPECTATIONS ON THE PART OF THE AVERAGE URUGUAYAN. IT IS NOW UP TO THE GOVERN-MENT TO MAINTAIN THE MOMENTUM RESULTING FROM THE MEETING TO CREATE A MYSTIQUE OF EFFECTIVE AND DYNAMIC ECONOMIC POLICY. A MORE DETAILED ANALYSIS OF THE RESULTS OF THE MEETING WILL FOLLOW BY AIRGRAM. END LIMITED OFFICIAL USE.
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